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Message Text

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51
ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 AEC-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FEAE-00 FPC-01 H-01

INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 RSC-01

SAM-01 OES-03 SP-02 SS-15 STR-01 TRSE-00 FRB-03

OPIC-03 XMB-02 AECE-00 PA-01 PRS-01 USIA-06 /096 W
---------- 025396
P 231505Z JAN 75
FM AMCONSUL ZAGREB
TO SECSTATE WASHDC PRIORITY 2913
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E.O. 11652: N/A
TAGS: ECEM, EIND, EINV, ENRG, US, YO
SUBJECT: SIGNING OF DOW CHEMICAL-INA LETTER OF UNDERSTANDING
ON JOINT VENTURE

SUMMARY: DOW CHEMICAL AND INA SIGNED JAN 23 LETTER OF UNDER-STANDING ON JOINT VENTURE ARRANGEMENT INVOLVING $500-600 MILLION INVESTMENT IN PRODUCTION BASIC PETROCHEMICALS. UNUSUAL SPEED WITH WHICH AGREEMENT ON LETTER WAS REACHED REFLECTS HIGH PRIORITY AND STRONG POLITICAL SUPPORT FOR THIS JOINT VENTURE. FEDERAL SECRETARY FOR FOREIGN TRADE, EMIL LUDVIGER, AND RANKING CROATIAN GOVERNMENT OFFICIALS WERE PRESENT FOR SIGNING CEREMONY; AND PRESIDENT CROATIAN EXECUTIVE COUNCIL SIROTKOVIC HOSTED A LUNCH. ECONOMIC COUNSELOR YORK REPRESENTING THE AMBASSADOR AND CG KAISER WERE PRESENT. END SUMMARY

1. PROJECT ITSELF, AS WAS STRESSED IN PARTICULAR BY DOW EUROPE BOARD CHAIRMAN ZOLTAN MERSZEI, INVOLVES BY FAR THE LARGEST POTENTIAL FOREIGN INVESTMENT IN YUGOSLAVIA. PLAN IS TO CONSTRUCT PETROCHEMICAL "CRACKER" PLANT TO INCREASE CAPACITY RIJEKA
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REFINERY FROM 4-MILLION TO 8-MILLION TONS PER YEAR. JOINT

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VENTURE WOULD PRODUCE SERIES OF BASIC PETROCHEMICAL PRODUCTS AND WOULD INVOLVE INVESTMENT WHICH MERSZEI ESTIMATED AS BETWEEN $500-600 MILLION AT TODAY'S PRICES. PLANT WOULD BE COMPLETED IN TIME FRAME 1979-82. IN HIS REMARKS AT THE SIGNING CEREMONY, MERSZEI NOTED THAT IT WAS HIS UNDERSTANDING THAT TOTAL FOREIGN INVESTMENT IN YUGOSLAVIA TODAY IS ABOUT $150 MILLION. DOW'S INVESTMENT IN THIS PROJECT WOULD, THEREFORE, BE ABOUT TWICE THE TOTAL AMOUNT OF FOREIGN INVESTMENT IN ALL JOINT VENTURES IN YUGOSLAVIA TODAY.

2. TODAY'S CEREMONY INVOLVED SIGNING OF LETTER OF UNDERSTANDING WHICH WILL BE CONVERTED INTO A BINDING AGREEMENT ESTABLISHING A JOINT VENTURE AFTER FURTHER DETAILS ARE WORKED OUT. IN REMARKS AT TODAY'S MEETING, MERSZEI SINGLED OUT THREE ISSUES AS REQUIRING SATISFACTORY SOLUTION BEFORE A BINDING AGREEMENT CAN BE SIGNED: (A) ASSURANCE FROM THE GOY THAT UNDER ANY AND ALL CIRCUMSTANCES JOINT VENTURE WILL HAVE PRIORITY CALL ON CRUDE OIL (ABOUT 20,000 BARRELS A DAY) WHICH WILL BE REQUIRED TO KEEP IT OPERATING; (B) ASSURANCES THAT COMPETITIVE CONDITIONS UNDER WHICH JOINT VENTURE OPERATES ARE AS FAVORABLE AS THOSE PREVAILING ELSEWHERE IN WESTERN WORLD--WEST GERMANY, SPAIN, OR US; AND (C) DOW BE PERMITTED TO ESTABLISH COMMERCIAL PRESENCE IN YUGOSLAVIA WHICH WOULD ALLOW DOW TO OPERATE DIRECTLY IN YUGOSLAV MARKET.

3. IN PRIVATE CONVERSATIONS WITH VLADIMIR LEMIC, DIRECTOR GENERAL OF INA, AND OTHER WELL-PLACED YUGOSLAVS, WE LEARNED THAT THE DECISION TO PROCEED ON THIS JOINT VENTURE WITH DOW HAS THE SUPPORT OF THE CROATIAN PARTY AND GOVERNMENT AS WELL AS THE GENERAL ENDORSEMENT OF THE FEDERAL GOVERNMENT. LEMIC SAID THAT INA HAD BEEN ENCOURAGED IN THE PAST MONTH BY THE POLITICAL AUTHORITIES TO MOVE AS QUICKLY AS POSSIBLE IN REACHING AGREEMENT WITH DOW. IT WAS ONLY ON WEDNESDAY, JANUARY 15, THAT THE DECISION WAS TAKEN TO FIX A DATE FOR SIGNING THE LETTER OF UNDERSTANDING ON JANUARY 23. ARRANGEMENTS WERE ALSO QUICKLY MADE FOR CROATIAN PRESIDENT OF THE EXECUTIVE COUNCIL SIROTKOVIC TO GIVE A RECEPTION AND LUNCHEON JANUARY 23 IN HONOR OF THIS ECONOMIC OCCASION.

4. IN OUR CONVERSATIONS WITH YUGOSLAV OFFICIALS IN THE PAST 24 HOURS, THEY HAVE ALL BEEN HIGHLY OPTIMISTIC ABOUT OVERCOMING LIMITED OFFICIAL USE

VARIOUS OBSTACLES AND CONCLUDING AN AGREEMENT WITHIN THE NEXT FEW MONTHS. LEMIC SAID THE ECONOMIC REASONS FOR SPEED COULD BE ATTRIBUTED TO THE NEED ON YUGOSLAV MARKET FOR PRODUCTS TO BE PRODUCED BY JOINT VENTURE, GOOD PREVIOUS EXPERIENCE WITH DOW, AND THE IMPORTANCE OF THE CHIMICAL SECTOR FOR CROATIA WHICH WAS DESCRIBED AS HAVING THE "HIGHEST INVESTMENT PRIORITY." FROM ANOTHER WELL-PLACED SOURCE, IT HAS BEEN SUGGESTED THAT THE DECISION TO MOVE ON THIS JOINT VENTURE IS ALSO OF CONSIDERABLE

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POLITICAL SIGNIFICANCE: IT REFLECTED EITHER A MUTUAL AGREEMENT OF SORTS BETWEEN CROATIA AND SERBIA BECAUSE OF THE COMPETION BETWEEN PANCEVO AND RIJEKA AND/OR AN OVERRIDING POLITICAL DESIRE TO TILT YUGOSLAVIA A LITTLE MORE TOWARDS THE US.

5. SIGNING OF THE JOINT VENTURE LETTER OF UNDERSTANDING AT INA HEADQUARTERS IN ZAGREB BY VLADIMIR LEMIC, DIRECTOR GENERAL OF INA, AND DOW EUROPE BOARD CHAIRMAN, ZOLTAN MERSZEI, WAS WITNESSED BY A LARGE NUMBER DOW AND INA OFFICERS AND US AND YUGOSLAV GOVERNMENT REPRESENTATIVES. HIGHEST-RANKING YUGOSLAV PRESENT WAS FEDERAL SECRETARY FOR FOREIGN TRADE, EMIL LUDVIGER. A NUMBER OF HIGH-RANKING CROATIAN GOVERNMENT OFFICIALS AND BANKERS WERE PRESENT, INCLUDING DR. VELIMIR RAJKOVIC, PRESIDENT OF THE ECONOMIC COUNCIL OF THE CROATIAN EXECUTIVE COUNCIL (CEC); ANTE ZELIC, PRESIDENT OF THE COUNCIL FOR FOREIGN ECONOMIC RELATIONS OF THE CEC; LJUBOMIR MAJERIC, PRESIDENT OF THE COUNCIL FOR FOREIGN RELATIONS OF THE CEC; AND ISAK DRUTER, GOVERNOR OF THE NATIONAL BANK OF CROATIA. FOLLOWING THE SIGNING CEREMONY, PRESIDENT OF THE CROATIAN EXECUTIVE COUNCIL GAVE A RECEPTION AND LUNCHEON IN HONOR OF THE OCCASION. AMBASSADOR TOON WAS UNABLE TO ACCEPT INVITATION TO ATTEND THE CEREMONIES BECAUSE OF LONG-STANDING COMMITMENT TO OPEN US INFORMATION CENTER IN SARAJEVO. EMBASSY ECONOMIC COUNSELOR YORK AND CG KAISER ATTENDED.
KAISER

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